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Analyst takes no prisoners on budget cuts

By George Skelton
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SACRAMENTO — One outfit that unquestionably earns its pay in Sacramento is the Legislative Analyst's Office, led by the "Budget Nun," Elizabeth G. Hill.

Hill is paid \$170,100 to run a 57-person office costing taxpayers \$7.2 million. The public more than gets its money's worth.

Her words are the bible on fiscal affairs, a source of truth amid Capitol hype, spin and prevarication. Lawmakers can take her advice or reject it, but they know it's given straight, without a political agenda. She works for the entire Legislature, both parties.

Once again Wednesday, the mild-mannered, middle-aged, graying policy wonk stood in the Capitol news conference room and presented her annual, voluminous report on the governor's budget proposal.

Oh, yes, she's also gutsy.

Gov. Arnold Schwarzenegger was guilty of "a failure to set priorities" when he proposed cutting spending 10% across the board, she scolded. The budget reflected "little effort . . . to determine which state programs provide essential services or are most critical to California's future."

Hill, of course, did not intone the Schwarzenegger-Republican refrain: "We don't have a revenue problem, we have a spending problem." She said we have both, as she has many times.

What particularly got my attention was Hill's history refresher: In boom times, Sacramento not only overspent, it cut taxes irresponsibly. The nagging budget deficit is a product of both tax cuts and uncontrolled spending, she reminded. And she called for "a balanced approach" of raising revenue and reducing spending.

"It is important to cast the net broadly for solutions," she asserted.

But Hill rejected the notion of raising tax rates. That could "negatively affect taxpayer work and investment decisions," she maintained.

Instead, Hill counted up \$40 billion in tax loopholes -- euphemistically called "tax expenditures" in government-ese. Hill recommended closing or narrowing a dozen loopholes and generating

\$2.7 billion a year.

In doing that, Hill ventured into a potentially tumultuous area few politicians would dare tread: income tax credits and exemptions. Like for dependent children. And just as we're approaching tax time.

Her suggested loophole-narrowing with the biggest impact, by far, was to reduce the dependent credit and reap \$1.3 billion. She'd slash the current \$294-per-dependent credit to \$94, same as it is for the personal exemption -- and same as it was until a decade ago when Gov. Pete Wilson and the Legislature raised it dramatically.

"Exemption credits are usually justified on the grounds that people who raise children or care for others incur extra expenses and therefore have less disposable income from which to pay taxes," Hill wrote in her report. "There is, however, no consensus as to the 'right' amount of such a credit."

She said that 30% of the dependent tax breaks benefit people with incomes exceeding \$100,000.

Hill was age-indiscriminate. She also advocated eliminating a \$94 senior tax credit for people over 65, saving \$125 million annually.

"It is not clear," she said, "why seniors should receive more favorable treatment than other taxpayers with the same income. California already provides special treatment to seniors by excluding Social Security [benefits] from its calculation of taxable income." That saves seniors \$1.5 billion, she said.

Beyond middle-income parents and seniors, Hill also targeted impoverished aged, blind and disabled. She suggested not only denying cost-of-living increases, but cutting grants for couples by \$66 a month, reducing their total federal-state stipends to \$1,458. They'd still be slightly above the poverty line, she said, and the state would pocket about \$90 million.

So Hill isn't exactly a bleeding heart, especially when the state still is in the hole roughly \$8 billion. That's her latest estimate, even after the Legislature and governor borrowed, shifted and cut a like amount last week.

That doesn't mean she's the darling of business, either. Hill also proposed plugging a bunch of business loopholes involving research and development credits, "net operating loss" and enterprise zones. And she recommended scuttling the yacht tax loophole that Assembly Republicans just won't give up.

Schwarzenegger quickly responded with a contradictory statement:

"While I believe that we should begin negotiations with all ideas on the table, I have been very clear in my position against raising taxes to fix California's spending problem."

So are all ideas on the table or not? Guess not.

The governor was more emphatic at a news conference Tuesday. Urging legislators to expedite budget negotiations, he asserted: "There are some people in this building that think that if they can wait and wait . . . that will get us into bigger financial difficulties and . . . that will make us then raise taxes.

"But they're making a big mistake. I can tell you this right now. There will be no raising taxes because we don't have a revenue problem, we "

We have a problem of political pandering -- pandering to a public in denial about the cost of providing the government services it demands.

The politicians were pandering to large families a decade ago when they substantially increased the dependent tax credit. Why should the state be rewarding child-production in an already overcrowded state?

Yes, the governor and the lawmakers need to set priorities. The first priority should be making ends meet without excessive borrowing.

The Budget Nun has pointed the way. But the politicians probably won't have the courage to follow.